

Friday, January 18th, 2008

**A New Year.....a new tone?:** Last year was the most contentious and acrimonious that I have seen in the 3 different legislative bodies in which I have served. I think this was intentional on the part of Speaker Pelosi who believed that the new majority Democrats could roll over minority Republicans and a weakened lame duck President. She felt that this strategy would accomplish much and result in improving popularity for the new majority as they stared down the president and his party.

Pelosi was wrong. Congress ended the year with a record-low near single digit approval rating, less than a third of the much-maligned approval rating of President Bush. Furthermore, only one of her vaunted "6 for '06" issues actually became law. And, many of the benchmarks upon which Democrats ran in 2006 are now worse since they have been in power. There are more troops in Iraq now than before Pelosi became speaker. And gas prices are near record highs while the economy is sputtering amid deficits, which after 4 years of decline, may now start to increase again.

It's a pretty dismal record regardless of whether you agree with the Pelosi agenda or not. So, will Pelosi and Reid change strategy in 2008? Perhaps. Just last month, President Bush reasonably pocket vetoed the defense authorization bill which had been passed overwhelmingly (with my support) after he discovered that a provision that would have allowed trial lawyers to freeze all assets in the U.S. of the new Iraqi government so lawsuits could be filed for claims against the old Saddam Hussein government. The first reaction of the Pelosi leadership was to indicate that they would try to override the President's veto. Then they rattled sabers that the veto was improperly made. I thought they were nuts. The public is going to overwhelmingly agree with the President on this issue. Well, this week, instead of a veto override, a new bill, with that provision fixed, was quietly brought to the floor and passed overwhelmingly again.

Then yesterday, Speaker Pelosi set up a meeting with Minority Leader John Boehner (R-OH) and the president to discuss ideas for an economic stimulus package. Huh? I don't recall any such meetings being called on any major issues last year.

So does this signal a new more conciliatory attitude? Will it hold? Or is it just a submission to reality in an election year? We'll see.

**Fiscal Stimulus Package:** Speaking of that fiscal stimulus package, you are going to get one. The President wants one as do both Democratic and Republican leaders along with a number of the presidential candidates, the Federal Reserve Board Chairman, and the Treasury Secretary. The question now is what will the package look like? There are lots of proposals by Democrats to spend money for stimulus on such things as more food stamps, unemployment payments, housing and alternative energy. Many on both sides are talking about a one-time tax rebate to income taxpayers as was done in 2001. And there are tax cuts being proposed largely by Republicans. There is also talk by Republicans of making the 2003 tax cuts permanent or keeping the AMT (Alternative Minimum Tax) from going up this year. But these ideas are being strongly resisted by Democrats. Most everyone is talking about a "package" of roughly \$100 billion in a combination of spending increases and/or tax cuts/rebates.

As you might imagine, I have an opinion about all of this. Shocking huh? Spending money on food stamps or home heating oil or whatever may be OK if it is your intention to help an increasing group of unemployed people. But there is little economic stimulus from that. And although I always like to leave people with more of their own money, I don't believe that a one-time check of \$300 per family is going to cause people to decide that everything is now OK and they can go spend again. Furthermore, there is a technical problem. Because Congress did not pass the bill to keep the AMT from going up until late December, the IRS is playing catch up and says that they will not be able to get regular refund checks out before June. That delay, by the way, will delay economic recovery probably by more than the rebate will help it. But the point is that the IRS doesn't think they can get a rebate check out before mid to late summer, even if it is based on your 2006 taxes. That obviously won't provide any stimulus until the 3rd or 4th quarter.

A few hundred bucks or increased welfare programs will not restore faith in the economy. True economic stimulus needs to multiply the nominal amount spent through capital formation and job creation. There is still a lot of money out there on the sidelines waiting to be committed when investors believe the returns are there. I think we should be looking a package of business/investment tax provisions that will encourage the movement of capital and thereby create jobs. These tax provisions could include a one year period of full expensing of newly acquired capital assets; indexing capital gains to inflation so that you don't pay taxes on the illusory gain that just keeps pace with inflation; and lowering the corporate income tax and capital gains tax rate. In my opinion, these sorts of things will get money moving, multiply their effect and help people believe that their job, home and investments are more secure so they can participate in the economy with more confidence.

That being said, housing prices were too high, loans too easy to get and people and businesses over-leveraged. There is an amount of correction in all these things that will be healthy for the economy long term that will happen no matter what the government does.

I hope that the stimulus package will look like what I have advocated. I suspect that it will include some spending, some rebate and some business tax cut.

**Major League Baseball (MLB):** This week, the House Committee on Government Reform began holding hearings on the MLB steroids controversy. I think Congress should keep its nose out of this whole thing. These steroids are legal products with a prescription in most cases. It is up to MLB to set their own rules and be accountable to it's customers (fans) on this issue. But it seems like Congress, on a bipartisan basis, is unable to resist the opportunity to grill people on national TV. So, the circus will go on. I do not intend to watch.

Until next week, I remain respectfully,

Congressman John Campbell